

FISCAL NOTE

Bill #: HB 1

Title: Appropriate funds for schools, TRS, and PERS

Primary Sponsor: Wanzenried, D

Status: As Amended in Senate Finance and Claims

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$127,000,000	\$64,340,030
Revenue:		
Pension Trust Funds	125,000,000	0
Net Impact on General Fund Balance:	(\$127,000,000)	(\$64,340,030)

- | | |
|---|--|
| <input checked="" type="checkbox"/> Significant Local Gov. Impact
<input checked="" type="checkbox"/> Included in the Executive Budget
<input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns
<input checked="" type="checkbox"/> Significant Long-Term Impacts
<input type="checkbox"/> Needs an Appropriation |
|---|--|

Fiscal Analysis

ASSUMPTIONS:

1. HB 1 appropriates the following amounts:

Appropriation Line Item	FY 2006	FY 2007	FY 2008
<i>Office of Public Instruction</i>			
Weatherization and Deferred Maintenance (OTO)		\$23,000,000	
Energy Cost Relief (OTO)	\$2,000,000		
Indian Education for All (OTO)		\$7,000,000	
K-12 BASE Aid (on-going)		\$28,668,278	
At-risk student payment (on-going)		\$5,000,000	
Transportation payments (on-going)		\$130,000	
<i>Retirement Systems</i>			
TRS Pension Trust Fund (OTO)	\$100,000,000		
PERS Pension Trust Fund (OTO)	\$25,000,000		
<i>Department of Administration</i>			
School Facility Condition Inventory (OTO)		\$392,952	\$2,107,048
<i>Department of Corrections (on-going)</i>		\$63,800	
<i>MT School for the Deaf and Blind (on-going)</i>		\$85,000	
Total Appropriation	\$127,000,000	\$64,340,030	\$2,107,048

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Pension Fund Fiscal Note Related Items:

Retirement Systems Affected:

- ☒ Teachers' Retirement ☒ Public Employees' ☐ Highway Patrol ☐ Police ☐ Sheriffs'
☐ Firefighters' ☐ Volunteer Firefighters' ☐ Game Wardens' ☐ Judges'

	Yes	No	NA
Has this legislation been reviewed by the legislative interim committee?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Has the cost or benefit of this legislation been calculated by the system's actuary?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Does this legislation include full funding for any benefit revisions?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Changes in Contribution Rates and Amortization Period (Retirement Section Related)

Teachers' Retirement System	Current Rates	Effective July 1, 2006, Effective July 1, 2007, Effective July 1, 2008		
		2006	2007	2008
State Contribution Rate	0.110%	0.110%	0.110%	0.110%
Employee Contribution Rate	7.150%	7.150%	7.150%	7.150%
Employer Contribution Rate	7.470%	7.470%	7.470%	7.470%
Total Contribution Rate	14.730%	14.730%	14.730%	14.730%
Amortization Period of AAL	does not ammortize	does not ammortize		
Public Employees' Retirement				
Employee Contribution Rate	6.900%	6.900%	6.900%	6.900%
Employer Contribution Rate	6.900%	6.900%	6.900%	6.900%
Total Contribution Rate	13.800%	13.800%	13.800%	13.800%
Amortization Period of AAL	does not ammortize	does not ammortize		

Office of Public Instruction(OPI)

- The appropriations for K-12 BASE aid and the at-risk student payment are contingent upon passage of SB1. SB 1 contains the distribution mechanisms for K-12 base aid, at-risk, and transportation.
- Weatherization and deferred maintenance are distributed 1,000 per district plus \$153 per ANB.
- Energy relief and "Indian Education for All" is distributed on an ANB basis.

Teachers Retirement System (TRS)

- The July 1, 2005 actuarial valuation revealed the TRS Unfunded Actuarial Accrued Liability (UAAL), was \$903.3 million, and that an employer contribution rate increase of 4.06%, effective July 1, 2006, was necessary to actuarially fund the System.
- Alternatively a cash infusion of \$440 million is necessary to reduce the July 1, 2005 UAAL a sufficient amount that the current employer contribution rate of 7.47% would be sufficient to actuarially fund the TRS.
- Assuming all actuarial assumptions are realized (principally the wage inflation assumption of 4.5% and the investment assumption of 7.75%), an infusion of \$100 million may reduce required future employer contribution rate increases.
- There are no employer or employee contribution increases in this bill.

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Public Employees Retirement System (PERS)

9. The Public Employees' Retirement System (PERS) unfunded liability was \$541 million at June 30, 2005. The employer contribution rate increase of 1.62% effective July 1, 2006 was necessary to actuarially fund the system.
10. Alternatively a cash infusion of \$266.4 million is necessary to reduce the July 1, 2005 Unfunded Actuarial Accrued Liability (UAAL) a sufficient amount that the current employer contribution rate of 6.9% would be sufficient to actuarially fund the PERS.
11. The \$25 million will go directly to reducing the UAAL.
12. There are no employer or employee contribution increases in this bill.

Department of Administration (DOA)

13. The DOA Architecture and Engineering Division will contract with a private consultant to provide a facilities condition inventory (FCI) for the K-12 public school facilities.
14. The DOA will provide state oversight for the project.
15. 1.5 FTE (1.00 grade 18 and .50 grade 9) and operating expenses will be required to provide the project oversight. The oversight is expected to cost approximately \$188K. Approximately \$63K of the costs will be incurred in FY 2007 with the \$125K balance to be incurred in FY08. Supporting documentation is provided in schedule 1 on the following page.
16. Section 1(1) of this bill is effective upon passage and approval.
17. The DOA will initiate the hiring process in January 2007 to select the 1.5 FTE required to provide the project oversight.
18. The DOA will solicit bids to provide the FCI services and award a contract to the successful bidder by May 2007. The contract is expected to be approximately \$2.312 million. Approximately \$330K of the costs will be incurred in FY07 with the \$1.982 million balance to be incurred in FY08.
19. The contractor will complete the FCI and prepare a report for submission to the State by June 2008.
20. The DOA will report the findings and recommendations of the K-12 FCI to the 2009 Legislature.
21. The 1.5 FTE will be terminated when the FCI project is completed, which is assumed to be June 30, 2008.
22. No new programs will be created. The state will utilize OTO funds to finance the FCI project.

	FY 2006	FY 2007	FY 2008	Total
Personal Services				
Grade 18 - 1.00 FTE	\$0	\$ 39,398	\$ 78,796	\$ 118,194
Grade 9 - .50 FTE	0	9,023	18,046	27,069
Subtotal	0	48,421	\$ 96,842	145,263
Operating Expenses				
1.50 FTE	0	14,243	28,485	42,728
Cont. Services FCI	0	330,288	1,981,721	2,312,009
Subtotal	0	344,531	2,010,206	2,354,737
Grand Total	\$ -	\$ 392,952	\$ 2,107,048	\$ 2,500,000

Department of Corrections (DOC)

23. The \$63,800 general fund for DOC is comprised of:
 - Indian Education for All - equal to \$20.40 per student for 119 students.
 - Closing the American Indian Achievement Gap - \$200 per American Indian Student for 10 students.
 - Quality Educator Component - \$2,000 each for 20.2 FTE plus 15.5 percent for salary related benefits.
 - Salary Related Benefits - Assume 90 percent of the above costs are used for salaries; and a cost of 15.5 percent for benefits.

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Montana School for the Deaf and Blind (MSDB)

24. The \$85,000 general fund for MSDB is comprised of:

- Indian Education for All - equal to \$20.40 per student for 68 students.
- Closing the American Indian Achievement Gap - \$200 per American Indian Student for 5 students.
- Quality Educator Component - \$2,000 each for 36.25 FTE .
- Salary Related Benefits - Assume 90 percent of the above costs are used for salaries; and a cost of 15.5 percent for benefits.

FISCAL IMPACT:

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Office of Public Instruction		
<u>Expenditures:</u>		
Local Assistance	\$2,000,000	\$63,798,278
<u>Funding of Expenditures:</u>		
General Fund (01)	\$2,000,000	\$63,798,278
Department of Corrections		
<u>Expenditures:</u>		
Personal Services and operating	\$0	\$63,800
<u>Funding of Expenditures:</u>		
General Fund (01)	\$0	\$63,800
Montana School and Deaf and Blind		
<u>Expenditures:</u>		
Personal Services and operating	\$0	\$85,000
<u>Funding of Expenditures:</u>		
General Fund (01)	\$0	\$85,000
Department of Administration		
FTE	0.00	1.50
<u>Expenditures:</u>		
Personal Services	\$0	\$48,421
Operating Expenses-General	0	14,243
Operating Expenses- FCI	0	330,288
Transfers (Pension Funds)	<u>125,000,000</u>	<u>0</u>
TOTAL	\$125,000,000	392,952
<u>Funding of Expenditures:</u>		
General Fund (01)	\$125,000,000	\$392,952
<u>Revenues:</u>		
Other – Pension Fund	\$125,000,000	0

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	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
All Agency Summary		
<u>Funding of Expenditures:</u>		
General Fund (01)	\$127,000,000	\$64,340,030
<u>Revenues:</u>		
Other – Pension Fund	\$125,000,000	0
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$127,000,000)	(\$64,340,030)

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES

There are no retirement employer contribution increases in this bill, so there is no additional cost to local governments. The following table shows which employers benefit from the cash infusion into the two retirement funds.

	Est. FY 2006 Salary (In Millions)	Salary by Fund	% of Total	Alloc. Of Gov. Proposal \$
Public Employees' Retirement System				
State	\$ 418.38			
General Fund (39%)		\$ 163.17	17.3%	\$ 4.32
State Spec. Rev. (35%)		146.43	15.5%	3.88
Federal Spec. Rev. (25%)		104.60	11.1%	2.77
Other (1%)		4.18	0.4%	0.11
University	90.83			
Current Unrest. Fund (55%) (State Share 43%)		21.48	2.3%	0.57
Current Unrest. Fund (55%) (Tuition Share 57%)		28.48	3.0%	0.75
Aux., Research, Other (45%)		40.87	4.3%	1.08
Local Government	315.48	315.48	33.4%	8.36
K-12	119.18			
County Retirement (90%) (State Share 27%)		28.96	3.1%	0.77
County Retirement (90%) (Local Share 73%)		78.30	8.3%	2.07
Federal (10%)		11.92	1.3%	0.32
Total	\$ 943.87	\$ 943.87	100.0%	\$ 25.00
Teachers' Retirement System				
State	\$ 5.21			
General Fund (68%)		\$ 3.54	0.6%	\$ 0.59
State Spec. Rev. (2%)		0.10	0.0%	0.02
Federal Spec. Rev. (29%)		1.51	0.3%	0.25
Other (1%)		0.05	0.0%	0.01
University	41.35			
Current Unrest. Fund (55%) (State Share 43%)		9.78	1.6%	1.62
Current Unrest. Fund (55%) (Tuition Share 57%)		12.96	2.2%	2.15
Aux., Research, Other (45%)		18.61	3.1%	3.09
K-12	555.71			
County Retirement (90%) (State Share 27%)		135.04	22.4%	22.42
County Retirement (90%) (Local Share 73%)		365.10	60.6%	60.62
Federal (10%)		55.57	9.2%	9.23
Total	\$ 602.27	\$ 602.27	100.0%	\$ 100.00

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LONG RANGE IMPACTS

The \$100 million payment to the Teachers' Retirement System, using best estimates today, will reduce the need for increased employer contributions. As a result, out-of-pocket cost savings over 30 years will be approximately \$300 million.

The \$25 million payment to the Public Employees' Retirement System is estimated to result in out-of-pocket savings of about \$79 million over 30 years.

TECHNICAL NOTES:

Department of Administration - Retirement System

1. While the \$125 million cash infusion reduces the need for increased employer contributions, this infusion alone does not make PERS or TRS actuarially sound.
2. This bill does not address the actuarial soundness of the Game Wardens' and Peace Officers' Retirement System or the Sheriffs' Retirement System.